

Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

Synopsis of the Governor's 2005-2007 Biennium Budget

February 10, 2005



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The Biennial Budget was introduced by the Governor on February 9, 2005 at a joint meeting of the Connecticut General Assembly. To facilitate the discussion with the Secretary of the Office of Policy and Management on February 10th at the Appropriations Committee, the Office of Fiscal Analysis has prepared the following brief summary of major budget policy changes.

The Governor's 2005-2007 Biennium Budget recommends a \$15,270.4 million for FY06 and \$15,862.3 million for FY07 for all appropriated funds. The Governor is projecting an all funds growth rate of 3.9 percent over each previous fiscal year.

In addition, the Governor has calculated spending based on her recommended all funds appropriations, the budget will be over the cap by \$198.7 million in FY06 and under the cap by \$63.6 million in FY07. The Governor recommends that \$244 million in expenditures that result from the imposition of a provider tax on nursing homes be excluded one-time from capped budget expenditures in FY06. If this is approved by the General Assembly then the Governor's proposed budget would be under the cap by \$45.3 million. The proposed biennial budget includes net revenue changes of \$585.2 million in FY06 and \$745.6 million in FY07.

The **significant program changes** are outlined in this next section. The program changes are followed by a section on **significant revenue changes**. Included at the end of the document are two important tables: the first outlines the recommended **spending of surplus** and the second lists the **major grants to towns**.

Significant Program Expenditures Changes

Human Services and Health

Department of Social Services

Medicaid

Nursing Home Provider Tax / Provider Rate Program. The Governor recommends the imposition of a 6 percent provider tax on gross patient revenues for all licensed nursing homes as allowed under federal law. The Governor estimates that the tax would raise \$139.2 million each

year and would result in an additional revenue increase of \$118.6 million from increased federal reimbursement and revenue from other providers for a total revenue increase of \$257.8 million a year. In FY06 the Governor recommends appropriating \$260.4 million to redistribute the revenue back to a variety of health care providers. Nursing homes would receive all of the 6 percent tax back as well as a 4 percent increase in their Medicaid rates. Other private providers of health care and human services would generally receive a 4 percent increase in the rates. An additional \$17 million would be appropriated to Medicaid to cover the increase in costs resulting from an accelerated spend-down by private pay clients who are ultimately covered by the Medicaid program.

Federal Medicare Part D prescription Drug Program Implementation. As a result of the passage of the federal Medicare Modernization Act of 2003, major changes to the state's ConnPACE and Medicaid prescription drug programs are being proposed. The changes will result in net savings to the state in both programs, but may also change the terms under which pharmaceutical products are made available to the recipients. Changes in benefits may not be known until the Medicare Part D prescription drug plans become available in the private market place. Continued coverage under a state wrap-around drug program for both ConnPACE and Medicaid recipients will be contingent upon participation in the Medicare Part D program which, by federal law, is voluntary. The Office of Fiscal Analysis will be preparing a separate analysis of the Governor's proposed changes in these two programs resulting from Medicare Part D implementation.

Other Medicaid

- Reduce rate adjustments for Managed Care Organizations to 2 percent in FY06 and 0% in FY07 for a savings of \$6.4 million in FY06 and \$27.8 million in FY07;
- Delay MCO payment for one month, for a FY06 savings of \$54.8 million, 13 payments will be made in FY07;
- Limit transitional Medicaid benefits to 12 months for savings of \$13.4 million in FY07;
- Increase HUSKY B premiums, for savings of \$2.2 million in FY06 and \$4.8 million in FY07;
- Institute \$3 co-payment for physician, outpatient and pharmacy visits under the Medicaid Fee-for-Service program, for savings of \$7.8 million in FY06 and \$8.3 million in FY07;
- Implement a premium assistance program under HUSKY A for savings of \$5.4 million in FY07;
- Establish review procedures for certain home health services for savings of \$1.9 million in FY06 and \$8.5 million in FY07;
- Establish admission and length of stay criteria for chronic disease facilities for savings of \$400,000 in FY06 and \$800,000 in FY07;
- Eliminate self-declaration provisions, for a savings of \$2 million annually; and
- Delay hospital rate increases by six months for savings of \$756,000 in FY06 and \$1.7 million in FY07.

Pharmacy Changes

- Increase Average Wholesale Price (AWP) discount for pharmacy benefits under Medicaid and ConnPACE to AWP – 15%, for a savings of \$11.4 million in FY06 and \$8.8 million in FY07;
- Expand the number of drugs subject to Maximum Acquisition Cost (MAC) pricing, for savings of \$1.9 million in FY06 and \$1.1 million in FY07;
- Modify pricing of over-the-counter drugs, diabetic supplies and certain nutritional supplements, for savings of \$1.7 million in FY06 and \$970,000 in FY07; and
- Reduce dispensing fee to \$3 for savings of \$660,000 in FY06 and \$370,000 in FY07.

Other DSS Changes

- Eliminate or reduce benefits for legal immigrants for savings of \$7.45 million in FY06 and \$8.1 million in FY07;
- Maintain open enrollment under the Child Care Certificate portion of the Child Care Subsidies program through the utilization of \$4 million in TANF bonus funds carried forward from FY05;
- Cap administrative costs for private providers at 18% for savings of \$1.7 million in FY07;
- Reduce hospitals disproportionate share payments to hospitals and eliminate the grant to the Connecticut Children's Medical Center for a FY07 savings of \$21.75 million;
- Defer Cost-of-Living Adjustments for public assistance programs, for a savings of \$5.9 million in FY06 and \$11 million in FY07;
- Expand Fraud and Early Detection (FRED) system, for savings of \$2.2 million in FY06 and \$6.5 million in FY07;
- Provide additional funding for Supportive Housing, at a cost of \$688,000 in FY06 and \$1.6 million in FY07; and
- Provide an additional \$100,000 in each year for the Alzheimer's respite program.

Department of Children and Families

Connecticut Juvenile Training School (CJTS)/Juvenile Justice Programs. The Governor makes the following recommendations:

- Establish an oversight monitor at the CJTS, at a cost of \$46,800 in each of FY 06 and FY 07;
- Reduce CJTS staffing due to lower census, for a savings of \$998,845 in FY 06 and \$993,967 in FY 07;
- Develop unit at CJTS for high-risk youth now served out of state, for a net savings of \$2,601,720 in FY 06 and \$2,704,227 in FY 07; and
- Enhance juvenile justice services, including additional clinical and support services in the community and additional psychological services at the CJTS, at a cost of \$864,876 in FY 06 and \$925,508 in FY 07.

Adoption, Foster Care & Subsidized Guardianship. The Governor makes the following recommendations:

- Increase foster care and subsidized guardianship monthly maintenance payments, at a cost of \$1,424,037 in FY 06 and \$2,224,578 in FY 07;
- Pickup expiring federal funding for adoption and foster care recruitment and training and expand related services, at a cost of \$500,000 in each of FY 06 and FY 07; and
- Implement various policy changes aimed at removing disincentives to adoption. These include: 1. Establishing a centralized telephone line for inquiries by prospective foster and adoptive families, 2. case management, assessment and referral services for families experiencing difficulties maintaining an adoption, 3. development of a post-masters certification program for therapists and DCF staff who work in the area of adoption, 4. funding postsecondary education for children and youth adopted after 1/1/05, and 5. increasing the monthly adoption subsidy for children adopted after 1/1/05 to foster care rate levels. These enhancements will cost \$805,673 in FY 06 and \$1,840,000 in FY 07.

Children’s Behavioral Health – the Governor makes the following recommendations:

- Retain expert services to assist with medication management for children under the care of the commissioner who take psychotropic drugs, at a cost of \$1,300,000 in FY 06 and \$1,675,000 in FY 07;
- Pickup expiring Mental Health Strategy Board monies and expand funding for intensive in home services, including Intensive In-Home Child and Adolescent Psychiatric Services (IICAPS), Multi-Systemic Therapy (MST) and Multi-Dimensional Family Therapy (MDFT), at a cost of \$5,209,000 in FY 06 and \$6,209,000 in FY 07;
- Pickup expiring Mental Health Strategy Board funding for the Early Childhood Consultation Program, which supports 11 early childhood consultants around the state who work with young children at risk of disrupting from a child care placement, at a cost of \$740,410 in FY 06 and \$940,410 in FY 07; and
- Enhance care coordination provided by thirteen local managed service systems throughout the state, at a cost of \$1,840,000 in each of FY 06 and FY 07. Each managed service system will focus on managing access to community based behavioral health services and assuring that services are available to children and youth returning from residential treatment centers as well as those at risk of out-of-home placement.

Other Service Enhancements- the Governor makes the following recommendations:

- Support enhanced training of department social work staff, at a cost of \$1,910,400 in each of FY 06 and FY 07;
- Pickup expiring federal funds for two youth employment and training programs serving 200 youth each year, at a cost of \$1,135, 000 in FY 07;
- Expand services to prepare youth for adult living settings, at a cost of \$8,202,621 in FY 06 and \$12,214,554 in FY 07;
- Continue support for housing vouchers for clients in supportive housing, which are now funded from TANF bonus funds, at a cost of \$706,716 in FY 07;
- Fund computer data system modifications to comply with federal regulations, at a cost of \$1,200,000 in FY 06 and \$300,000 in FY 07;
- Enhance support for two hospital-based child sexual abuse evaluation and treatment centers, at a cost of \$514,000 in each of FY 06 and FY 07; and

- Fund a 4% cost of living increase for selected grant funded private providers, at a cost of \$10,684,756 in each of FY 06 and FY 07.

Transfers to Other State Agencies – the Governor recommends transferring funding from DCF’s budget to:

- the Department of Mental Retardation, to reflect its assumption of financial responsibility for 125 mentally retarded voluntary services children. Amounts to be transferred: \$11,837,000 in FY 06 and \$13,130,000 in FY 07; and
- the Council to Administer the Children’s Trust Fund, to consolidate funding for Hartford-based Nurturing Families Network programming. Amounts to be transferred: \$1,831,400 in FY 06 and \$1,870,305 in FY 07.

Council to Administer the Children’s Trust Fund

Create New “Great Beginnings” Program. The Governor recommends new funding for a Great Beginnings Program as part of her Early Childhood Initiative. All 40,000 new parents in the state will be provided with regular, essential information during the first four critical years of a child’s development. Recommended funding: \$200,000 in each of FY 06 and FY 07.

Annualize and Transfer Funding to Continue Enhancement of Nurturing Families Network (NFN) in Hartford. Funding was earmarked to be transferred from the Department of Children and Families to the Children’s Trust Fund in FY 05 to provide partial year support of eight new NFN sites within Hartford. The Governor proposes consolidating these annualized dollars under the Trust Fund’s budget. Amounts to be transferred: \$1,831,400 in FY 06 and \$1,870,305 in FY 07.

Reduce Funding for Kinship Fund. A reduction is proposed for the Kinship Fund, which supports the awarding of small multi-purpose grants through eight probate courts to relative guardians on behalf of the children in their care. The Kinship Fund receives \$325,000 in the current fiscal year. Recommended savings: \$164,937 in each of FY 06 and FY 07.

Reduce Funding for Family Empowerment Initiative Program. A reduction of approximately 50 % is proposed for eight prevention programs that assist high-risk groups of parents with children of various ages. Recommended savings: \$111,603 in each of FY 06 and FY 07.

Department of Mental Health and Addiction Services

- Consolidate administrative structures at Connecticut Valley and Cedarcrest Hospitals for savings of \$250,000 in FY06 and \$500,000 in FY07;
- Eliminate funding for partial hospital programs for savings of \$838,000 in each year of the biennium;
- Fund mental health community initiative for \$5 million annually;
- Provide a FY06 Cost-of-Living increase of 4% for grant funded private providers, at a cost of \$6.4 million;

- Expand supportive housing efforts with \$750,000 in FY06 and \$1.6 million in FY07; and
- Cap administrative costs for private provider at 18% for savings of \$2.3 million in FY07.

Department of Public Health

Maintain HIV/AIDS Drug Adherence Program. Funding is recommended to offset a reduction in federal Ryan White moneys in order to maintain a drug adherence program that assists persons with HIV/AIDS by monitoring medication compliance. Recommended funding: \$510,326 in each of FY 06 and FY 07.

Community Health Services/Health Centers. The Governor recommends reducing funding for the Community Health Services line item by 14.75 percent as compared to the current services level of \$6.0 million. This is accomplished by removing an inflationary increase (at \$254,499) for services supported through this account, as well as further reducing support of federally qualified health centers (FQHC's) by \$630,679. This is the primary DPH state funding source for grants supporting primary health care at Community Health Centers; fetal and infant mortality reduction programming; and Planned Parenthood services. Recommended savings: \$885,178 in each of FY 06 and FY 07.

Department of Mental Retardation

Wait List Funding. Funding of \$4.6 million for new supports and services for 150 individuals on the wait list and family supports for an additional 100 individuals is provided. Additional funding of \$3.8 million is recommended to annualize FY 05 wait list resources. This new funding is provided in each FY 06 and FY 07 as a continuation of the department's wait list initiative.

Day Programs for High School Graduates. Funding of \$4.2 million is recommended in FY 06 to support day programs for an estimated 244 individuals graduating from high school in June of 2005. An additional \$4.8 million is recommended in FY 07 for an estimated 229 individuals graduating from high school in June of 2006.

Funding for Ageouts. The amount of \$4.2 million in FY 06 and an additional \$3.5 million in FY 07 is provided for residential and day services for those individuals aging out of the Department of Children and Families and the local education agency (LEA's).

Transfer and Expand Services for DCF Voluntary Services Children. An amount of \$13.5 million is recommended in FY 06 (with an additional \$2 million in FY 07) to reflect the reallocation and expansion of services of 125 children currently in the DCF Voluntary Services program to DMR's service system (residential and other appropriate services).

Private Provider COLA. The Governor has recommended a 4 percent cost of living adjustment (COLA) for private providers. Funding of \$17.4 million in FY 06 is recommended in DMR to reflect the COLA. The private provider COLA increase is part of the redistribution of the federal revenue resulting from the nursing home provider tax program.

Education

Department of Education

High School Technology Initiative. The Governor proposes a total of \$15.5 million over the biennium to provide laptop computers for high school students. The amounts included are \$6.0 million in FY 06 and \$9.5 million in FY 07.

Statewide Early Childhood Pilot Program and Early Childhood Advisory Cabinet. The Governor proposes a total of \$13.3 million over the biennium for the creation of an Early Childhood Advisory Cabinet and a statewide Early Childhood Pilot Program. The cabinet would require \$2.3 million over the biennium while the pilot program would require \$11.0 million. Additionally, \$1 million is provided in each year for professional development of early childhood providers.

Please refer to the grants to towns at the end of this document for a summary of the Governor's recommendations concerning education aid.

Department of Higher Education

The Governor recommends: (1) eliminating funds for the higher education state matching grant which result in savings of \$8,000,250 in both FY 06 and FY 07. Funding of this grant will be eliminated during the biennium, and the match ratio will be changed from 1:2 to 1:4 effective 7/1/05; (2) establishing a loan forgiveness program in the amount of \$1.5 million in each year of the biennium that will provide financial assistance and incentives to encourage workforce growth; and (3) an additional \$250,000 in each year to increase the preparation and number of nursing faculty.

Teachers' Retirement System Contribution

The state contribution to the Teachers' Retirement System is funded at 65.9% of the actuarially certified amount. The contribution maintains the same reduced level that was appropriated in FY 05. The 65.9% level of funding results in a contribution reduction of \$135.1 million in FY 06 and \$140.5 million in FY 07. The Teachers' Retirement System Fund had assets valued at \$9.8 billion and liabilities of \$15.1 billion in the June 30, 2004 valuation.

General Government

Office of Policy and Management

Continue the Suspension of Funding for LEAP, & Neighborhood Youth Grants. State funding for LEAP is suspended, resulting in a savings of \$861,050 in FY 06 and \$879,543 in FY 07, and the program will operate at a reduced level. State Funds for Neighborhood Assistance is

suspended, resulting in a savings of \$1.22 million in FY 06, it is anticipated that this program will be supported by federal funds.

Cap Grants to Distressed Municipalities, Elderly Circuit Breaker, and Property Tax Relief for Veterans at FY 05 levels resulting in a total savings of \$5.3 million in FY 06 and \$7.7 million in FY 07.

Cap PILOT for Manufacturing Machinery and Equipment (MME) and eliminate reimbursement for trucks for hire that weigh over 26,000 pounds, which results in an estimated \$7.7 million in FY 06 and \$9.2 million in FY 07.

Enhance Capital City Economic Development Authority (CCEDA) funds by \$4.8 million each year. Additional funding of \$2.3 million each year is recommended for CCEDA operating costs, because the revenue from Adriaen's Landing Parking garage will not be available, as the garage will not open simultaneously with the convention center. Additionally, \$2.5 million is recommended each year for CCEDA marketing and sales expenses.

Develop Electronic Payment for Licensing & Permitting Fees. Three positions and \$500,000 is recommended in each year of the budget to enable individuals to apply and pay for licenses on line.

Provide \$640,000 in each year of the biennium for regional planning agencies.

Carryforward \$750,000 FY 05. Anticipated surplus funds to deter potential federal base closures in Connecticut.

Unsettled Collective Bargaining Contracts

The Governor has provided no funding for unsettled contracts in the 2006 - 2007 biennium. There are six contracts that expired as of 6/30/03 and 6/30/04 that remain unsettled and could be submitted for approval prior to the end of the current fiscal year (there are no funds to cover these contracts in the current FY 05 budget). There are also 10 contracts that expire on 6/30/05 and five contracts that expire on 6/30/06 that could potentially require funding during the 2006 - 2007 biennium.

Citizens' Ethics and Government Integrity Commission

Reorganize and rename the State Ethics Commission to be the Citizens' Ethics and Government Integrity Commission. The Commission will consist of three separate levels: Commission office staff (divided into three different sections); the nine-member Commission; and a panel of judge trial referees. The Commission staff is divided into an Enforcement Division, a Legal Division, and a Public Information Office.

The Governor recommends funding of \$326,464 for four new positions within the agency; an enforcement counsel, a general counsel, and two legal investigators.

Contracts Standards Board

The governor proposes to create a 5-member board to oversee all state contracts. The board would: (1) review existing state contracting and procurement laws, regulations and practices, (2) draft and maintain a uniform procurement code, and (3) develop a procurement training program for state employees. An office with 10 staff members would support the activities of the board. Funding in the amount of \$915,750 is provided for in FY06 and \$945,988 in FY07.

Department of Revenue Services

The Governor recommends hiring 2 new Tax Appellate Officers, 20 Revenue Examiners, and 2 Systems Developers for the Department of Revenue Services. The total cost of the new employees is estimated to be approximately \$1.24 million in FY 06 and \$1.26 million in FY 07. The new employees are estimated to result in a revenue increase of approximately \$19.5 million in FY 06 and approximately \$ 24.6 million in FY 07.

Office of the State Treasurer

General Fund Debt Service. The governor proposes to use FY 05 budget surplus funds to pre-fund FY 06 (\$70.1 million) and FY 07 (\$60.7 million) debt service costs for Economic Recovery Notes.

Regulation and Protection

Department of Public Safety

The Governor recommends: 1) funding 31 vacant trooper positions, effective 11/19/05. The additional trooper positions will raise the number of state troopers to 1,248, a mandated number set forth in the Connecticut General Statutes Sec. 29-4. The cost of funding the 31 positions is \$865,000 in FY 06 and \$1,322,025 in FY 07; 2) funding of \$2,491,219 for 67 vacancies; 3) a reduction in overtime that results in savings of \$2.0 million in each year of the biennium; and (4) a reduction in the position count to reflect 25 unfunded vacancies.

Department of Emergency Management and Homeland Security

In accordance with Public Act 04-219 the Department of Emergency Management and Homeland Security (DEMAHS) will be funded in the biennium budget via transfers and additional funding. An amount of \$2,026,828 and six staff are recommended to be transferred from the Department of Public Safety, and \$974,404 and 22 staff from the Military Department in FY 06. In addition to the funds that are being transferred from existing agencies, additional funds totaling \$1,549,000 and an additional 19 positions are included in the biennial budget.

Military Department

The Governor recommends veteran's service bonuses which would provide Connecticut National Guard veterans, who have served at least 90 consecutive days in Operation Enduring Freedom and Operation Iraqi Freedom, \$50 per month. The cost of implementing this program will be \$2.55 million in FY 06 and \$1 million in FY 07.

Justice

Judicial Department

The Governor recommends continued funding of various justice efforts initiated by the legislature in 2004, including: an additional forty eight probation officers to reduce caseloads; seventy residential drug treatment beds; and programs to provide special supervision of split sentence probationers in the community and those at risk of technical violations. The cost to annualize these programs is \$2,922,657 in FY 06.

The Governor recommends the elimination of funding for the Justice Education Center and Truancy Services. Aggregate savings are \$554,479 in FY 06 and \$566,535 in FY 07. The Justice Education Center performs various services for the Judicial Department, such as grant writing and program evaluation. Funds for Truancy Services support school violence education programs, alternatives to detention and juvenile justice centers.

The Governor recommends that \$600,000 in funding for contracted victim services be shifted from the General Fund to the Criminal Injuries Compensation Fund (CICF) in each year of the 2005-2007 Biennium. The CICF is supported primarily by revenue from court fees and court-ordered donations, and presently has a fund balance of about \$3,000,000.

Department of Correction

The Governor recommends: 1) restoring the FY 05 FAC transfer of \$500,000 from Community Support Services; 2) annualization in the amount of \$891,250 in each year for 230 halfway house beds; and 3) a reallocation of \$7.8 million from the dedicated parole staffing and operations accounts to Personal Services and Other Expenses.

Economic Development and Environment

Department of Economic Development

The Governor recommends eliminating funding of the Tax Abatement and PILOT Grants for a FY 06 savings of \$4,949,631 and a FY 07 savings of \$5,058,523.

Department of Environment Protection

The Governor recommends eliminating increase in the current Transportation Fund transfer to Conservation Fund for FY 06 and FY 07 for a savings of \$1 million per year.

Labor Department

Create the 21st Century Skills Fund. The Twenty-First Century Skills Fund is a new program that will expand work-study opportunities, expand child care programs, and establish a competitive grant program. The fund will award grants to providers of innovative short courses, flexible class schedules, “contextual learning” curricula related to job skills, innovative distance learning or on-site learning initiatives, including employers, community-technical colleges, vocational-technical schools, local or regional boards of education or regional educational service centers that offer adult education programs and community-based education and training providers.

This fund is created to help train/retrain workers who have lost their jobs, especially older workers who might need technology skills to get a job in this 21st century economy. The Governor's budget includes \$3 million in FY 06 and \$3 million in FY 07 to create this program.

Transportation

Department of Transportation

The Governor also makes the following recommendations:

- Level fund Town Aid Road \$20 million from the Transportation Fund for FY 06 and FY 07;
- Increase Bus Fares from \$1.25 to \$1.50, effective 9/1/05, for a savings of \$4.5 million in FY 06 and \$5.4 million in FY 07 to Transportation Fund; and
- Recommended Governor’s transportation initiatives that require bonding will be analyzed in a separate document to be produced by the Office of Fiscal Analysis.

Department of Motor Vehicles

The Governor also makes the following recommendations:

- Postpone vision screening program until next biennium. Savings of \$1.0 million to the Transportation Fund for FY 06 and FY 07.

Significant Revenue Changes

The Governors FY 06 and FY 07 proposed budget recommends the following significant tax and revenue changes.

General Fund

- Delays the increase in the maximum property tax credit to \$500. The maximum credit would remain at \$350 for income years 2005 and 2006. Beginning in 2007, the Governor proposes increasing the credit by \$50 until it reaches \$500 in 2009. This will save \$105 million in FY 06 and FY 07.
- Imposes a 6.0% tax on facilities providing nursing home services effective July 1, 2005. This proposal is anticipated to generate \$139.2 million per year.
- Imposes corporate tax of 15% surcharge in 2005 and 10% surcharge in 2006, which is anticipated to generate \$67.1 million in FY 06 and \$10.9 million in FY 07.
- Reduces the net operating loss carry forward provision against the corporation business tax from 20 to 5 years. The reduction in the loss carry forward provision is anticipated to save \$7.4 million in FY 06 and \$17.9 million in FY 07.
- Eliminates the R&D tax credit exchange program effective for the 2005 income year. Eliminating the program is anticipated to save \$20 million beginning in FY 07.
- Increases the cigarette tax from \$1.51 to \$2.25 per pack effective July 1, 2005. The increase is estimated to generate \$104.0 million in FY 06 and \$87.6 million in FY 07.
- Increases the tax on tobacco products tax from 20% to 90% of the wholesale price and the tax on snuff from 40 cents to \$1.80 per ounce. The increase is estimated to generate \$15.7 million in FY 06 and \$15.4 million in FY 07.
- Increases the alcoholic beverage tax by 15%, which is anticipated to generate \$7.9 million in FY 06 and \$7.1 million in FY 07.

Special Transportation Fund

- Increases the gasoline tax based on the schedule below. Each 1-cent increase in the tax is anticipated to generate an additional \$15.4 million in revenue.

Effective Date	Old Rate	New Rate
July 1, 2005 (FY 06)	25 cents/gallon	26 cents/gallon
July 1, 2006 (FY 07)	26 cents/gallon	27 cents/gallon
July 1, 2007 (FY 08)	27 cents/gallon	29 cents/ gallon
July 1, 2008 (FY 09)	29 cents/gallon	30 cents/gallon
July 1, 2013 (FY 14)	30 cents/gallon	31 cents/gallon
July 1, 2016 (FY 17)	31 cents/gallon	30 cents/gallon

Non-reoccurring Revenue Items

The Governor's proposed budget includes the following non-reoccurring or one-time revenue sources.

Item	FY 06 (\$ -Millions)	FY 07 (\$ - Millions)
General Fund		
Corporation Business surcharges	\$67.1	\$10.9
Tobacco Trust Fund – Transfer to GF	12.0	12.0
Boating license fee increase	2.0	-
Energy Conservation Fund – Transfer to GF	12.0	12.0
Banking Fund – Transfer to GF	-	20.0
Insurance Fund – Transfer to GF	-	5.0
Transfer FY 06 revenue to FY 07	-	41.0
Securitize unclaimed property	-	40.0
Total	\$93.1	\$140.9
Special Transportation Fund		
Safety Inspection Account – Transfer STF	\$1.0	-
Reduce Transfer to Emissions Fund	4.9	2.5
Total	\$5.9	\$2.5

FY 05 Surplus Disposition

The Governor earmarks her \$335.6 million estimated FY 05 surplus in the following manner:

Item	Amount
	(in millions)
Budget Reserve (Rainy Day) Fund (BRF)	\$41.7
Stem Cell Research	20.0
Economic Recovery Note Payments	137.7
FY 05 Appropriations	79.1
FY 05 Carryforwards Reducing FY 06 Requirements	57.1
Total Earmarkings	\$335.6

When the \$41.7 million for the Budget Reserve Fund (BRF) is added to the estimated \$300 million surplus from FY 04, the total amount that would be deposited in the BRF would be \$341.7 million. Based upon the Governor's FY 06 net General Fund appropriations of \$14,124.3 million, the maximum that could be deposited in the BRF would be \$1,412.4 million. With the \$341.7 million deposit, the BRF would fall short of being fully funded by \$1,070.7 million.

OFA projected on January 28, 2005 that the FY 05 surplus would be \$369.2 million or \$33.6 million higher than the Governor's figure. If OFA's higher amount occurs and remains unearmarked, it would be deposited to the BRF.

Our preliminary analysis indicates that of the Governor's \$335.6 million surplus estimate, \$262.8 million would be earmarked for one-time purposes and \$72.8 million would be used for ongoing purposes. Approximately \$227.4 million would likely be expended in FY 06 and \$108.2 million in FY 07.

**FY 05 Surplus Disposition
Recommended by the Governor**

	Recommended	One-Time	Ongoing	Recommended by Fiscal Year (Approximate)	
				FY 06	FY 07
Budget Reserve (Rainy Day) Fund (BRF) [1]	41,700,000	41,700,000	-	41,700,000	-
Stem Cell Research	20,000,000	20,000,000	-	10,000,000	10,000,000
FY 05 Appropriations:					
Economic Recovery Note Payments	137,700,000	137,700,000	-	70,100,000	67,600,000
State Comptroller - PS - reduce retirement backlog	420,000	420,000	-	300,000	120,000
State Comptroller - OE - analyze GASB 45	100,000	100,000	-	100,000	-
State Comptroller - OE - analyze Medicare Act	100,000	100,000	-	100,000	-
OPM - Energy Contingency	10,000,000	10,000,000	-	10,000,000	-
OPM - OE - research & investigate federal base closures in CT	750,000	750,000	-	750,000	-
RSA - GF Accrued ERIP Sick and Vacation Leave Payments	42,414,100	42,414,100	-	21,207,050	21,207,050
RSA - TF Accrued ERIP Sick and Vacation Leave Payments	5,135,900	5,135,900	-	5,135,900	-
RSA - GF Accrued non-ERIP Sick and Vacation Leave Payments	14,650,000	-	14,650,000	7,150,000	7,500,000
RSA - TF Accrued non-ERIP Sick and Vacation Leave Payments	1,000,000	-	1,000,000	1,000,000	-
DAS - Workers' Compensation Claims - fund full & final settlements	2,000,000	2,000,000	-	1,000,000	1,000,000
TRB - OE - analyze GASB 45	50,000	50,000	-	50,000	-
TRB - OE - analyze Medicare Part D	80,000	80,000	-	-	80,000
SDE - OE - RVTSS school construction energy costs	400,000	400,000	-	100,000	300,000
SDE - OE - RVTSS off-site transportation costs	600,000	600,000	-	220,000	380,000
DSS - Medicare Part D program initial administrative implementation	500,000	500,000	-	500,000	-
DoIT - PS - CORE overtime	250,000	250,000	-	250,000	-
DoIT - OE - CORE-related	150,000	150,000	-	150,000	-
Board of Higher Education - WCSU Greek Chair	<u>500,000</u>	500,000	-	500,000	-
Subtotal	79,100,000				
FY 05 Carryforwards Reducing FY 06 Requirements:					
Various Agencies - Personal Services and Other Expenses	25,472,310	-	25,472,310	25,472,310	-
DECD - Subsidized Assisted Living Demonstration	348,300	-	348,300	348,300	-
Medical Examiner - Medicolegal Investigations	200,000	-	200,000	200,000	-
DMHAS - Special Populations	300,000	-	300,000	300,000	-
SDE - Omnibus Education Grants State Supported Schools	200,000	-	200,000	200,000	-
SDE - Charter Schools	1,900,000	-	1,900,000	1,900,000	-
SDE - Priority School Districts	1,000,000	-	1,000,000	1,000,000	-
SDE - OPEN Choice program	1,000,000	-	1,000,000	1,000,000	-
DHE - Minority Teacher Incentive Program	50,000	-	50,000	50,000	-
DHE - Connecticut Aid to Charter Oak	12,180	-	12,180	12,180	-
DOC - Workers' Compensation Claims	2,000,000	-	2,000,000	2,000,000	-
DOC - Community Support Services	1,500,000	-	1,500,000	1,500,000	-
DAS - Workers' Compensation Claims	1,600,000	-	1,600,000	1,600,000	-
Higher Education Alternative Retirement System contribution	1,500,000	-	1,500,000	1,500,000	-
Pensions and Retirement - Other Statutory	50,000	-	50,000	50,000	-
State Employee Health Service Costs	<u>20,000,000</u>	-	<u>20,000,000</u>	<u>20,000,000</u>	-
Subtotal	57,132,790				
Total FY 05 Surplus Disposition per Governor	335,632,790	262,850,000	72,782,790	227,445,740	108,187,050
Total FY 05 Surplus Projected by OFA on 1/28/05	<u>369,200,000</u>				
Additional Potential Surplus (if not earmarked would be deposited in BRF)	33,567,210				

[1] When this amount is added to the estimated \$300 million surplus from FY 04, the total amount that would be deposited in the BRF would be \$341.7 million. Based upon the Governor's FY 06 net General Fund appropriations of \$14,124.3 million, the maximum that could be deposited in the BRF would be \$1,412.4 million. With the \$341.7 million deposit, the BRF would fall short of being fully funded by \$1,070.7 million.

Governor's Recommendations for Major Grants to Towns

Grant	FY 05	FY 06	Change	% Change	FY 07	Change	% Change
	Estimate	Governor	From FY 05	From FY 05	Governor	From FY 06	From FY 06
PILOT: State Property	69,959,215	69,959,215	0	0.0%	69,959,215	0	0.0%
PILOT: Colleges and Hospitals	105,931,737	105,931,737	0	0.0%	105,931,737	0	0.0%
Pequot/Mohegan Aid	85,000,000	86,250,000	1,250,000	1.5%	86,250,000	0	0.0%
Town Aid Roads	20,000,000	20,000,000	0	0.0%	20,000,000	0	0.0%
PILOT: Manufacturer's Inventory	50,729,721	50,729,721	0	0.0%	50,729,721	0	0.0%
Public School Transportation	43,139,500	46,764,000	3,624,500	8.4%	47,964,000	1,200,000	2.6%
Non-public School Transportation	3,250,300	3,995,000	744,700	22.9%	3,995,000	0	0.0%
Adult Education	16,910,000	19,596,400	2,686,400	15.9%	19,596,400	0	0.0%
Excess Cost -Student Based (Special Education)	67,103,841	92,596,500	25,492,659	38.0%	92,596,500	0	0.0%
Education Equalization (ECS)	1,562,870,000	1,594,356,000	31,486,000	2.0%	1,594,356,000	0	0.0%
Health Services - Pupils in Private Schools	3,800,000	4,750,000	950,000	25.0%	4,750,000	0	0.0%
Priority School Districts	99,804,487	100,237,487	433,000	0.4%	102,848,112	2,610,625	2.6%
Magnet Schools	69,539,217	84,517,972	14,978,755	21.5%	98,977,889	14,459,917	17.1%
Total	2,198,038,018	2,279,684,032	81,646,014	3.7%	2,297,954,574	18,270,542	0.8%